

PUBLIC DISCLOSURE

November 2, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Oakwood State Bank
Certificate Number: 10334**

**300 Main Street
Oakwood, Texas 75855**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1601 Bryan Street
Dallas, Texas 75201**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Oakwood State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 2, 2010**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION'S CRA RATING: This institution is rated **Substantial Noncompliance**.

The FDIC assigned a rating of Substantial Noncompliance at the last five evaluations dated March 9, 2009; March 24, 2008; February 5, 2007; January 17, 2006; and February 8, 2005. The bank received a rating of Needs to Improve at the previous four consecutive FDIC evaluations dated April 2, 2003; April 2, 2001; June 1, 1999; and September 29, 1997. The bank demonstrated no substantive improvements over the previous periods evaluated.

Examiners used the performance factors applicable to small banks in evaluating this one-office, \$3.3 million institution located in the rural East Texas town of Oakwood. These factors are loan-to-deposit ratio, lending inside the assessment area, lending to borrowers of different incomes, geographic distribution of loans, and response to complaints. The bank had no CRA-related complaints; therefore, this factor was not considered.

In arriving at the overall rating for this institution, examiners primarily relied on the loan-to-deposit ratio performance factor as well as the bank's previous ratings, as dictated by the regulation and the lack of improvement over prior evaluations. This reliance stems from the bank's failure to respond to identifiable credit needs within its assessment area, which significantly influences a bank's ratings under Community Reinvestment Act guidelines.

With limited lending activity and the lack of written loan applications, examiners must base conclusions for the performance factors on verbal data supplied by the president and senior management. The limited available data notably restricts the confidence level that can be placed on any conclusions drawn from that data thereby severely limiting the relevance of the other performance factors.

The following points summarize the bank's performance regarding the performance factors:

- The bank demonstrated an unacceptable record regarding its level of lending activity. The bank recorded an average net loan-to-deposit ratio of 4.86 percent.
- Based on a review of all consumer loans made, the bank originated a majority by number and dollar volume inside the assessment area indicating a satisfactory performance.
- Based upon the limited volume of loan activity, the dispersion of sampled loans reflects a good penetration among low- or moderate-income individuals, based on income data provided by bank staff.
- The geographic distribution of sampled loans reflects a reasonable record as the assessment area consists of only middle-income tracts.

SCOPE OF EXAMINATION

This evaluation covers the time period from March 9, 2009, to November 2, 2010, the date of the previous evaluation to this evaluation's date. To evaluate performance, examiners applied the CRA Small Bank performance factors: loan-to-deposit ratio, lending concentration inside the assessment area, loan distribution based on borrowers' profiles, geographic loan distribution, and response to consumer complaints.

CRA Small Bank procedures require examiners to determine the bank's major product lines from which to sample, and as an initial matter, examiners may select from among the same loan categories used for CRA Large Bank evaluations: home mortgages, small business, small farm, and consumer loans. The following table shows loan activity for the previous 17 months.

Table 1 – Loans Originated from May 1, 2009 to November 1, 2010				
Loan Category	# of Loans	% of Number	Amount \$(000)	Percent of \$
Real Estate	0	0	0	0
Agricultural	11	10.7	42	24.0
Commercial & Industrial	6	5.8	25	14.3
Consumer	86	83.5	108	61.7
Total	103	100.0	175	100.0

Source: *Bank records.

The percentages by number and dollar volume in Table 1 reflect The Oakwood State Bank's significant concentration in originating consumer loans since the previous evaluation. The few agricultural and commercial loans granted were mainly to two individuals and an analysis would not support any meaningful conclusion; therefore, farm and commercial loans were not evaluated.

The review focused entirely on an analysis of the bank's consumer loans. Examiners analyzed all 86 consumer loans totaling \$108,120 originated since May 1, 2009 through November 1, 2010, to develop the analyses presented under the Lending to Borrowers of Different Incomes, Geographic Distribution of Loans, and Lending in the Assessment Area criteria described later in the evaluation.

DESCRIPTION OF INSTITUTION

Background

Established in 1900, The Oakwood State Bank is a \$3.3 million retail bank focusing on small dollar consumer loans. The bank operates from one office in Oakwood, Texas. Oakwood is in East Texas in Leon County, approximately 15 miles southwest of Palestine, Texas, and 15 miles northeast of Buffalo, Texas. The bank is in direct competition with several substantially larger financial institutions serving the larger adjacent communities.

The bank offers a limited variety of loan and deposit products. Interest bearing deposit products are not offered; however, the bank offers low interest and minimum fee loans. Banking hours are from 9:00 a.m. to 12:00 noon and 1:00 p.m. to 3:00 p.m. Monday through Friday, and 9:00 a.m. to 11:00 a.m. on Saturday. The bank neither has a drive-through service nor an automated teller machine (ATM).

Ability and Capacity

The Oakwood State Bank's September 30, 2010, Consolidated Report of Condition and Income reports total assets of \$3,321,000 and total loans of \$127,000. Table 2 contains information about The Oakwood State Bank's loan portfolio mix as of September 30, 2010.

Table 2 – Asset Distribution as of September 30, 2010		
Asset Category	Amount \$(000)	Percent of Total Assets (%)
Cash	614	18.5
Securities	2,235	67.3
Fed Funds Sold	300	9.0
Net Loans & Leases	124	3.7
Other Assets	48	1.5
Total Assets	3,321	100.0

Source: Bank's September 30, 2010 Consolidated Report of Condition and Income

As reflected in the following Loan Distribution table, consumer loans at 85 percent of total loans represent the bank's primary business focus.

Table 3 – Loan Distribution as of September 30, 2010		
Loan Type	Amount \$(000)	Percent of Total Loans (%)
Real Estate Loans	0	0.0
Farm Loans	19	15.0
Commercial & Industrial	0	0.0
Consumer	108	85.0
Total Loans	127	100.0

Source: Bank's September 30, 2010 Consolidated Report of Condition and Income

The bank did not perform any branching or merger and acquisition activities since the last evaluation. The institution received a Substantial Noncompliance rating at its previous March 9, 2009 FDIC evaluation.

DESCRIPTION OF ASSESSMENT AREA

The defined assessment area includes two middle-income census tracts: 9809 in Freestone County and 9501 in Leon County. The 2000 U.S. Census data reports a total population of 7,627 and 3,038 households. Approximately 82 percent of the population resides in census tract 9501, which includes the communities of Oakwood, Buffalo, and portions of Jewett.

The 2000 U.S. Census data reported the median family income as \$36,380. The 2010 Department of Housing and Urban Development (HUD) estimated median family income is \$46,500. The Bureau of Labor Statistics reports the area's unemployment rate as of the second quarter 2010 to be 7.5 percent for Leon County and 6.8 percent for Freestone County compared to the Texas unemployment rate of 8.3 percent.

Major employers are located in the nearby Teague, Buffalo, Palestine, and Elkhart. Those entities include Helmcamp, Inc., Mexia State School, Elkhart Independent School District, Palestine Regional Hospital, Texas Department of Criminal Justice (five prison units), and a Wal-Mart Distribution Center.

Although the assessment area as a whole is classified as middle-income, this does not preclude the presence of low- or moderate-income households within the assessment area. Table 4 depicts the income levels of households within the assessment area.

Table 4 – Distribution of Households in Assessment Area		
Income Level	Number of Households	Percent (%)
Low	822	27.1
Moderate	453	14.9
Middle	609	20.0
Upper	1,154	38.0
Totals	3,038	100.0
<i>Households below Poverty Level</i>	576	19.0

Source: 2000 U.S. Census Data

An examiner conducted an interview with a local business owner to obtain information about the credit needs of the community and the efforts in meeting those credit needs by the only financial institution in Oakwood. The contact stated that he has no lending relationship but has a checking account with the bank. He is aware that the bank is limited in its lending capacity and has a conservative lending philosophy. He also stated that the banks in Palestine and Buffalo do not have a local community link with the residents and businesses in Oakwood. He said that the community needs commercial and residential credits in amounts greater than \$20,000, but the local bank is unable to make those larger dollar loans. Hence, local businesses have to go to out-of-town banks for loans. He said that having a bank that is capable of extending residential and commercial loans is what the community needs to redevelop.

Assessment Area Credit Needs

The assessment area's credit needs primarily center on agricultural and agricultural real estate, small business, and consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank demonstrated an unacceptable level of lending activity as measured by its loan-to-deposit (LTD) ratio. Examiners considered the level and trend of the bank's ratio relative to its capacity, the local credit needs, available opportunities, and the performance of other similarly situated banks.

The Oakwood State Bank's average net LTD ratio for the seven quarters since the previous evaluation is 4.86 percent. The bank's quarterly net LTD ratio varied from a low of 4.26 percent as of March 31, 2009, to a high of 5.90 percent as of June 30, 2010. The current average net LTD ratio has remained is similar to previous evaluations. Consideration of public funds does not notably impact the ratio.

Table 5 provides a summary of the average net LTD ratio of the subject bank compared with similar-sized institutions. In addition, Table 6 compares the subject bank to local institutions within close proximity of the bank's assessment area. Banks in both tables are listed in alphabetical order to avoid the appearance of ranking.

Table 5 – Comparison to Small Non-Metropolitan Banks				
Bank	Total Deposits \$(000)	Net Loans \$(000)	Assets \$(000)	Average Net LTD Ratio (%)
<i>The Oakwood State Bank</i> <i>Oakwood, Leon County, TX</i>	2,239	123	3,321	4.86
Grapeland State Bank Grapeland, Houston County, TX	23,852	15,707	25,788	68.49
Lovelady State Bank Lovelady, Houston County, TX	30,804	21,655	34,666	73.61
Oglesby State Bank Oglesby, Coryell County, TX	12,196	11,882	13,405	95.88

Source: September 30, 2010 Call Report

Although the subject bank's total asset figure is notably lower than the other listed institutions, Table 5 still shows a sizable disparity between the subject bank's average net LTD ratio and the other comparable institutions.

Additionally, Table 6 on the following page provides a summary of the average net LTD ratios of the subject bank and other institutions located within or near its assessment area. Although the banks are not comparable in asset size or loan mix, they show that lending opportunities are available within and adjacent to the bank's market area. The significantly higher LTD ratios exhibited by the other financial institutions demonstrate a demand for loans.

Table 6 – Comparison to Other Area Banks				
Bank	Total Deposits \$(000)	Net Loans \$(000)	Assets \$(000)	Average Net LTD Ratio (%)
<i>The Oakwood State Bank Oakwood, Leon County, TX</i>	2,239	123	3,321	4.86
Farmers State Bank Groesbeck, Limestone County, TX	100,039	48,062	112,612	46.70
Normangee State Bank Normangee, Leon County, TX	73,057	33,388	84,798	42.69
The East Texas National Bank Palestine, Anderson, TX	116,223	56,919	126,482	46.42

Source: September 30, 2010 Call Report

A lack of lending opportunity is not the predominant factor inhibiting The Oakwood State Bank's lending level. Management's historical lack of willingness to generate loans is reflected in the LTD ratio above. As indicated in the previous CRA evaluation, The Oakwood State Bank's lending philosophy is very restrictive, as indicated by its usual unwillingness to grant residential real estate or commercial credits. This severely limits the bank's ability to meet identified community credit needs. However, current management is taking steps to increase lending.

Although the bank's legal lending limit restricts larger commercial and real estate lending opportunities, the bank's current legal lending limit would generally accommodate other types of credits to meet the needs of individuals and small businesses. Failure to respond to identifiable credit needs affects the bank's ratings negatively under Community Reinvestment Act guidelines.

Consequently, the extremely low LTD ratio, negligible positive trend, and the ongoing failure to meet identified community credit needs, combine to demonstrate an unacceptable level of lending activity.

LENDING IN THE ASSESSMENT AREA

Based on the limited volume of lending activity, the bank's record of lending activity within the assessment area is satisfactory as a majority of the loans analyzed by number and dollar volume were originated within the assessment area.

An assessment area is a geographical area in which the bank intends to concentrate the majority of its lending. Criteria for a bank's lending performance is based on the number and dollar volume of loans originated within the assessment area. Table 7 illustrates the bank's total consumer lending in the assessment area.

Table 7 – Distribution of Loans Extended Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Dollar Volume of Loans					
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Consumer	68	79.1	18	20.9	86	81,204	75.1	26,916	24.9	108,120

Source: Loan originations from May 1, 2009 to November 1, 2010

As shown in Table 7, The Oakwood State Bank makes a majority of analyzed consumer loans inside its assessment area. As noted, 79.1 percent of the total number and 75.1 percent of the total dollar volume of the loan samples are inside the assessment area. The level of lending within the assessment area demonstrates that it meets standards for satisfactory performance when considering the assessment area in relation to the bank's asset size and office location.

LENDING TO BORROWERS OF DIFFERENT INCOMES

Based upon all of the consumer loan volume, the loan dispersion reflects a good penetration among low- and moderate-income individuals, based on income data provided by the bank. Table 8 depicts the income figures used in categorizing the borrowers' reported incomes.

Table 8 – Borrower Income Levels for 2010		
Income Level	Percent of MFI	MFI \$46,500
Low	Less than 50%	Less than \$23,250
Moderate	50% to <80%	\$23,250 to <\$37,200
Middle	80% to <120%	\$37,200 to <\$55,800
Upper	120% and more	\$55,800 and more

Source: 2010 HUD estimated medium family income. (Four loans made in 2009 utilized the 2009 HUD estimated MFI)

A large percentage of the bank's loans are to low- and moderate-income consumers. The majority of the loans do not have written applications; therefore, management provided estimates of borrowers' annual incomes. Of the 68 consumer loans located in the assessment area which were reviewed, examiners stratified these consumer loans to determine the proportion of loans to low-, moderate-, middle-, and upper-income borrowers. Table 9 shows the loan stratification.

Table 9 – Distribution of Loans by Borrower Income Level					
Income Level	Number (#)	Number (%)	Dollar (\$)	Dollar (%)	Households (%)
Low	30	44.1	11,991	14.8	27
Moderate	14	20.6	13,092	16.1	15
Middle	14	20.6	23,128	28.5	20
Upper	10	14.7	32,993	40.6	38
Totals	68	100.0	81,204	100.0	100.0

Source: Bank data

The data in the table above reflects a good performance to low-income and moderate-income borrowers. These conclusions focus on the bank's percentages by number relative to the corresponding percentage of households.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's assessment area consists of two middle-income tracts, so limited weight is given to this factor. Examiners noted that the vast majority of the loans reviewed are in or near the town of Oakwood in Leon County.

Given the nature of the bank's loan products, its single office location, and demographic factors within the defined assessment area, the overall geographic distribution of loans is considered reasonable.

RESPONSE TO COMPLAINTS

There were no CRA complaints received since the last evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Reviews of consumer loans did not reveal any lending practices that may be characterized as disparate treatment or having a disparate impact on any protected class of individuals. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations.

GLOSSARY

GEOGRAPHY TERMS

Assessment Area: A geographic area delineated by the bank in accordance with the requirements of the Community Reinvestment Act.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Distressed or Underserved Non-Metropolitan Middle-Income Geography: Designated as such by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, based on (1) Rates of poverty, unemployment, and population loss, or (2) Population size, density, and dispersion.

Geography: A census tract or block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Metropolitan Area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of a non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

INCOME TERMS

Area Median Income: (1) The median family income (MFI) for the MSA, if a person or geography is located in an MSA; or (2) The statewide non-metropolitan MFI income, if a person or geography is located outside the MSA.

D&B: A leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always count the occupied housing units.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates, which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

LOAN TERMS

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$500,000 or less and typically are either secured by farm real estate or are classified as loans to finance agricultural production and other loans to farmers.